

ASSESSOR'S REFERENCE LIBRARY VOLUME 3, LAND VALUATION MANUAL CONTENTS CHECK LIST

The following list indicates all up-to-date sections and the order in which they should appear in your manual. Indicate any pages missing from your ARL Volume 3, Land Valuation Manual, complete the name and address box on the opposite side of the form, fold the form so that the address for the Division of Property Taxation shows, staple, affix a stamp, and mail the completed form. **Bold typeface indicates updated material as of the March 16, 2006, Statutory Advisory Committee hearing and subsequent approval by the State Board of Equalization on March 24, 2006.**

Section	Pages	Date
Title Page	i	Revised 1-03
Preface	ii	Revised 1-03
Contents Check List	iii-iv	Revised 3-06
Glossary of Abbreviations v-vi	No Change	Revised 1-02
Table of Contents	No Change	Revised 1-06
Chapter 1	No Change	Revised 9-03
Chapter 2	No Change	Revised 6-05
Chapter 3	No Change	Revised 6-05
Chapter 4	No Change	Revised 1-06
Chapter 5	No Change	Revised 6-05
Chapter 6	No Change	Revised 1-06
Chapter 7	Pages 7.97-7.102	Revised 3-06
Chapter 7	Page 7.119	Revised 3-06
Chapter 7	All other pages, no change	Revised 6-05
Chapter 8	No Change	Revised 1-02
Chapter 9	No Change	Revised 1-02
Chapter 10	No Change	Revised 1-02
Index	No Change	Revised 1-06

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Valuing Ski Area Possessory Interests

The statute, 39-1-103(17)(a)(I), C.R.S., specifically requires that the valuation of ski area possessory interest is determined by capitalizing at an appropriate rate the annual fee paid by the lessee or permittee. The rate used to capitalize any fee paid by the ski area includes an appropriate rate of return, an appropriate effective tax rate and an appropriate adjustment to reflect the portion of the fee, if any, required to be paid over by the United States to the state of Colorado and its political subdivisions.

The possessory interest valuation method is applied only to the real and personal property under agreement from the United States. Privately owned land, improvements, and personal property located on the property are separately valued considering the cost, market and income approaches to appraisal.

Definition of Capitalization of Income for Ski Area Possessory Interests

The previous year's fees paid for the use of the USFS land for a ski area is capitalized into a value of the possessory interest.

Data Needed to do the Capitalization of Income Approach

- Previous year's permit fees
- Capitalization rate
- Pass-through rate
- Effective tax rate as of the assessment date

Obtaining Ski Area Permit Fees from USFS

For information on how to contact the respective agency for a list of necessary information for use in classification and valuation of possessory interests, refer to the **DISCOVERY OF POSSESSORY INTERESTS** portion of the procedure.

Development of the Capitalization Rate

The capitalization rate is developed and published by the Division every year using the Weighted Average Cost of Capital technique (WACC) and may be found in **Addendum 7-D**. For more detailed information on the calculation of the ski area capitalization rate contact the Division.

Development of the Pass-Through Rate

The pass-through component of the ski area capitalization rate represents the percentage of fees returned to the state by the U.S. Forest Service (USFS) from fees paid by users of USFS land. Historically, the amount paid back has been 25 percent. However, beginning in 2001, counties could choose either the historical 25 percent payback or a "Full Payment Amount" (FPA) that represented the average of the highest three years payback from 1985 to 2001. Therefore, the Division developed a separate pass-through component for the FPA counties that recognizes the higher return of USFS fees. The pass-through rate may be found in Addendum VII-D. For more detailed information on the calculation of the ski area pass-through rate contact the Division.

Development of the Effective Tax Rate

The effective tax rate is developed by the county to account for property taxes paid by the possessory interest owner of the ski area recreational land for the possessory interest assessment. In the calculation, the county uses the mill levy prior to the assessment date for the tax area where the ski area is located.

$$\begin{array}{l} \text{Mill Levy (as a decimal; based on location of the possessory interest)} \\ \times \quad .29 \text{ (assessment rate as a decimal)} \\ \hline \text{Effective Tax Rate (expressed as a decimal equivalent)} \end{array}$$

Calculation of the Adjusted Capitalization Rate

The adjusted capitalization rate is composed of three components.

$$\begin{array}{l} \text{Capitalization rate (calculated by the Division)} \\ + \text{ Pass-through rate (calculated by the Division)} \\ + \text{ Effective tax rate (calculated by the county)} \\ \hline \text{Adjusted Capitalization Rate} \end{array}$$

Application of the Adjusted Capitalization Rate

After the adjusted capitalization rate is calculated it is applied to the USFS previous year's fee amount. The resulting number is the actual value of the possessory interest in the Forest Service land.

$$\begin{array}{l} \text{Fees paid to USFS (from USFS)} \\ \div \text{ Adjusted Capitalization rate (developed by the county and the Division)} \\ \hline \text{Value of the possessory interest} \end{array}$$

Adjusting the Present Value of the Possessory Interest to Actual Value by Use of the Level of Value Adjustment Factor

Pursuant to 39-1-103(17)(a)(I) and (II)(B), C.R.S., the administrator is required to establish the level of value adjustment factor(s) for possessory interests using the same procedures and principles as are provided for property in section 39-1-104(12.3)(a)(I), C.R.S. For each assessment year, the Division of Property Taxation publishes separate level of value adjustment factors for real and personal property possessory interests.

For the first year, the adjustment factor is always **1.00** because the first year of the reappraisal cycle is the base year from which the adjustment for the second year is taken. If the value is for the intervening year of the two-year cycle, the actual value is adjusted to reflect the value as of the June 30 appraisal date.

Please refer to **Addendum 7-D** for the adjustment factors to be used for the current assessment year.

Steps in the Valuation of Ski Area Possessory Interests

39-1-103(17)(a)(I), C.R.S., requires that the assessor use only the capitalization of income approach to determine the value of the possessory interest of ski area recreational lands.

Steps in the valuation process:

STEP #1 Obtain the amount of fees paid for the previous calendar year.

Use data collected by the Division and provided to the counties or contact the United State Forest Service (USFS) district forest supervisor's office in which the ski area is located. If unsure as to where the local office is, refer to the **DISCOVERY OF POSSESSORY INTERESTS** portion of the procedure for the name and address of the central office.

STEP #2 Develop the applicable adjusted capitalization rate.

Calculate the applicable adjusted capitalization rate:

- Capitalization rate (calculated by the Division)
- + Pass-through rate (calculated by the Division)
- + Effective tax rate (calculated by the county)

Adjusted Capitalization rate*

*The capitalization rate should be rounded to four (4) decimal places.

Additional information regarding how the discount and pass-through rates are developed may be obtained by contacting the Division of Property Taxation.

STEP #3 Calculation of the actual value of the possessory interest.**Example calculation of ski area recreational land:****Assumptions:**

➤ Previous Year's USFS fees	\$50,000
➤ Capitalization Rate (published by the Division)	+.1449
➤ Pass-through rate (published by the Division)	+.0483
➤ Effective tax rate (calculated by the county)	+.0232
➤ Adjusted capitalization rate (decimal)	.2164

Calculation of Value:

Previous Year's USFS fees	\$50,000
Adjusted Capitalization Rate	÷ .2164
Value of the possessory interest	\$231,054

STEP #4 Apply the level of value adjustment factor published by the Division.

The calculation of the actual value of the possessory interest is:

$$\frac{\text{Capitalized value of the possessory interest}}{\text{X Level of value adjustment factor (published by the Division)}}$$

Actual Value of the possessory interest

The Division publishes the capitalization rate and pass through rate used by all county assessors each year. For intervening assessment years (even numbered years), the Division publishes the adjustment factor used by all assessors to adjust values to the appraisal date in effect for that reappraisal cycle.

Apportionment of Possessory Interest Values in Land between Two or more Counties

In most circumstances, possessory interests are located in a single county and no apportionment is necessary. However in some instances, land under agreement lies in more than one county and thus requires an apportionment of the actual value of the possessory interest to each county.

Prior to determining the apportionment, counties that border the national forest or other land wherein the possessory interest use exists should agree on the final actual value for the possessory interest.

For example, grazing permit fees based on Animal Unit Month (AUM) allotments are charged by the USFS for rights to graze livestock on national forest land. However, there is no specific legal description, acreage, or county specifically identified in the agreement. In this situation, an apportionment of the actual value of the possessory interest to all counties having acres of that national forest in each county is necessary.

The apportionment percentage is based on acreage of land contained within each county divided by the total number of acres in the USFS.

An example of the apportionment procedure:

Actual value of the possessory interest located in the national forest	\$100,000
National forest acreage located in more than one county - County #1	10,000 acres
County #2	<u>40,000 acres</u>
Total acreage in national forest	50,000 acres

Apportionment Percentage Calculations

County #1	$10,000 \div 50,000 = .20$	$\times \$100,000 = \$ 20,000$	Apportioned value
County #2	$40,000 \div 50,000 = .80$	$\times \$100,000 = \underline{\$ 80,000}$	Apportioned value
		\$100,000	Total actual value

When apportionments are necessary, the Division can provide the number of acres of national forest land within each county's boundaries.

Each county will send a tax bill for its apportioned share of the total value.

ADDENDUM 7-D, POSSESSORY INTEREST VALUATION RATES

The following rates will be used for the valuation of Possessory Interest properties for 2006.

SKI AREA RECREATIONAL CAPITALIZATION RATE

2006:

The pass-through component of the ski area capitalization rate represents the percentage of fees returned to the state by the U.S. Forest Service (USFS) from fees paid by users of USFS land. Historically, the amount paid back has been 25 percent. However, beginning in 2001, counties could choose either the historical 25 percent payback or a "Full Payment Amount" (FPA) that represented the average of the highest three years payback from 1985 to 2001. Therefore, we have developed a separate pass-through component for the FPA counties that recognizes the higher return of USFS fees.

The following counties with ski areas chose the FPA option and are to use the following capitalization rate in the assessment of ski areas:

Boulder, Chaffee, Clear Creek, Eagle, Garfield, Grand, Gunnison, Lake, La Plata, Mesa, Mineral, Pitkin, Routt, and Summit

Capitalization Rate	12.50 percent	(Determined by the Division)
Pass-Through Rate	+ 7.70 percent	(Determined by the Division)
Effective Tax Rate	<u>+</u>	(Determined Locally)
	=	Adjusted Capitalization Rate

The following county with a ski area, San Miguel, is to use the following adjusted capitalization rate based on the historical 25 percent pass-through.

Capitalization Rate	12.50 percent	(Determined by the Division)
Pass-Through Rate	+ 4.50 percent	(Determined by the Division)
Effective Tax Rate	<u>+</u>	(Determined Locally)
	=	Adjusted Capitalization Rate

2006 LEVEL OF VALUE ADJUSTMENT FACTOR, 39-1-103(17)(II)(B), C.R.S.

2006 Possessory Interest LOV Factor – Real Property	0.93
2006 Possessory Interest LOV Factor – Personal Property	0.92

